

MINUTES
MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
FRIDAY, JUNE 21, 2013 – 9:15 A.M.

Present:	<u>Board Members</u>	Judy Baar-Topinka Roderick Bashir Devon Bruce Michele Bush Steven Powell Dan Rutherford (via telephone)
	<u>Staff</u>	Andrew Armonaitis William Atwood Johara El-Harazin Timothy Kominiarek Scott Richards Linsey Schoemehl Lorna Scott Alise White
	<u>Guests</u>	Marquette Associates Brian Wrubel, Nichole Roman-Bhatty, Kelli Schrade, Dave Smith,
Absent:	<u>Board Member</u>	James Clayborne Thomas Hoffman

ROLL CALL

Chairman Bruce called the meeting to order at 9:15 a.m. The Secretary called the roll and noted that a quorum was present. Mr. Bashir moved to allow Treasurer Rutherford to participate in the meeting via telephone due to matters pertaining to Treasurer Rutherford's employment. Ms. Bush seconded and the motion passed unanimously.

COMMUNICATIONS

None.

REPORT OF THE CHAIRMAN

Chairman Bruce thanked everyone for traveling to Champaign, IL for the meeting and suggested continuing to expand the Board's presence by having its next June meeting in Rockford, Aurora, or another city outside of Chicago. Chairman Bruce asked Board members to consider possible locations to discuss at a later date.

MINUTES OF PREVIOUS MEETING

Mr. Bashir moved to approve the minutes of the Board meeting held March 22, 2013 in the form previously submitted. Mr. Powell seconded and the motion passed unanimously.

REPORT OF THE STANDING COMMITTEES

Investment Policy Committee

Chairman Bruce stated that the Investment Policy Committee had met the previous afternoon and reported the following actions:

- The minutes of the Investment Policy Committee meeting held March 21, 2013, were approved.
- Committee recommends allocating to the Valor Fund III, consistent with Franklin Park's recommendation.
- Committee recommends adopting the revised asset allocation and subsequent recommendations as set forth by Marquette.
- Committee recommends issuing an RFP for a core fixed income investment manager.

Chairman Bruce asked that the Board reconsider the recommendation to issue an RFP for a core fixed income investment manager since such action is inconsistent with Board's Watch List Policy. Instead, Chairman Bruce suggested that the Board invite any poor performing investment manager to present to the Committee prior to the Board issuing an RFP. Ms. Bush agreed that inviting investment advisers to present to the Committee prior to issuing an RFP is consistent with the Board's Watch List Policy. Discussion continued regarding the matter.

Following review, Ms. Bush moved to approve the above recommendations, but for the recommendation to issue an RFP for a core fixed income investment manager. She further moved to ratify the actions of the Investment Policy Committee and invite Chicago Equity to present to the Committee at its next scheduled meeting. Mr. Bashir seconded and the motions passed unanimously.

Audit & Compliance Committee

Ms. Bush stated that the Audit & Compliance Committee had met prior to this meeting; she further reported the following actions had been taken:

- Ms. Bush reported that Deloitte's risk assessment will be presented to the Committee at its next scheduled meeting.
- The minutes of the Audit & Compliance Committee meetings held December 14, 2012 and March 22, 2013 were approved.
- Ms. Schoemehl reported there were no exceptions to report to the Staff's Monthly Personal Transactions Report through March 2013.
- The Commission Recapture Report for the quarter ending March 2013 was approved.
- The Records of Vouchers for the months of January, February, and March 2013 were approved.
- Committee approved the report on placement agent contacts and ex parte communications for FY 2013 4th Quarter.
- Ms. Bush requested appointed Board Members to submit their quarterly timesheets.
- The Committee reviewed a memorandum pertaining to fiduciary training compliance and Ms. Bush reminded members to complete their ethics and/or fiduciary training by June 30, 2013.

Mr. Bashir moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Comptroller Topinka seconded and the motion passed unanimously.

Emerging Manager Committee

Ms. El-Harazin stated that the Emerging Manager Committee met on April 5, 2013; she further reported the following actions had been taken:

- The minutes of the Emerging Manager Committee meeting held December 13, 2012 were approved.
- The Committee moved to re-evaluate Credo Capital Management at calendar year end (December 2013).
- The Committee moved to recommend the Board adopt a Resolution, to be drafted by Staff and presented to the Committee at its next scheduled meeting, suspending any action regarding the Board's current investment managers which have been unable to obtain a State of Illinois minority certification in accordance with the Board's Policy.

- The Committee moved to recommend the Board adopt the revised Emerging and Minority Investment Manager and Minority and Illinois Brokerage Policy, as distributed to the Committee.

Ms. Bush moved to approve and ratify the actions of the Emerging Manager Committee as outlined above. Mr. Bashir seconded and the motion passed unanimously.

DEFERRED COMPENSATION

Report of Consultant – Marquette Associates

Ms. Roman-Bhatty, Marquette Associates, referred Members to the “Illinois State Board of Investment Deferred Compensation Executive Summary” for the quarter ending March 2013 and reviewed. (Official minutes contain attachments.) Chairman Bruce discussed the issue of education and disclosure to Plan participants, to which Ms. Roman-Bhatty explained that the Plan’s Recordkeeper is responsible for education of the Plan participants but indicated that education in general is an issue across the industry; target date funds are intended to provide diversified investment options for Plan participants lacking investment knowledge. Mr. Bashir suggested issuing a survey to Plan participants to determine the types of information they would like to receive in the Plan newsletter. Ms. Roman-Bhatty agreed to follow up on this suggestion with the Plan’s Recordkeeper and to keep the Board apprised.

Participant Fee Overview

Ms. Roman-Bhatty referred Members to the booklet section titled, “Fee Overview and Proposal,” and reviewed. (Official minutes contain attachments.) Mr. Bashir moved to approve the recommendation to reinstate a Plan Participant Fee in accordance with the Plan’s Administrative Rules. Comptroller Topinka seconded and the motion passed unanimously.

Loan Program Update/Revised Loan Program Policy

Ms. Schoemehl updated Members regarding the Plan’s Loan Program and referred Members to the memorandum, “Revised Loan Program Policy,” dated June 3, 2013, as previously distributed. (Official minutes contain attachments.) Comptroller Topinka moved to approve the revised Loan Program Policy as recommended in the memorandum. Mr. Bashir seconded and the motion passed unanimously.

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report – March 2013 and June Interim Report

Mr. Wrubel referred Members to the Investment Performance Report for the quarter ending March 2013, previously distributed, and reviewed. (Official minutes contain attachments.)

REPORT OF THE DIRECTOR

Chairman Bruce stated that the Board would go into Executive Session to discuss specific investment manager contracts (5 ILCS 120/2(c)(7)), matters relating to compensation of specific employees (5 ILCS 120/2(c)(1)), and pending Board litigation (5

ILCS 120/2(c)(11)). Comptroller Topinka moved to go into Executive Session for the above-stated purposes. Ms. Bush seconded and the motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood, Messrs. Kominiarek, Richards, and Wrubel, and Ms. El-Harazin, Schoemehl, Scott and White.

Mr. Powell moved to return to Open Session. Ms. Bush seconded and the motion passed unanimously. Upon returning to Open Session, Mr. Powell moved to approve the retention of Courtland Partners for real estate investment consulting services. Mr. Bashir seconded and the motion passed unanimously.

Matters Relating to Existing Managers

Director Atwood stated that this was partially discussed in Executive Session. Further, Mr. Richards and Ms. El-Harazin referred Members to the memorandums, "Matters Relating to Existing Managers" and "Portfolio Manager Changes," as previously distributed and reviewed. (Official minutes contain attachments.)

Revised Investment Guidelines

Ms. Scott referred Members to the memorandum, "Investment Manager Guideline Updates," dated May 6, 2013, as previously distributed. (Official minutes contain attachments.) Mr. Powell moved to approve the proposed amendments to the Board's investment guidelines for LSV, Credo and William Blair. Ms. Bush seconded and the motion passed unanimously.

Watch List

Mr. Richards reported that the Watch List was previously distributed and reviewed. (Official minutes contain attachment.)

Legal Matters

Director Atwood stated that this was discussed in Executive Session.

Update on Securities Lending

Ms. El-Harazin referred Members to the memorandum, "Securities Lending Reporting – March 31, 2013," dated June 21, 2013 and reviewed.

Minority Broker Usage Report

Ms. El-Harazin reviewed the minority brokerage commissions for the quarter ended December 31, 2012, as outlined in the memorandum, "Minority Broker Commission Report as of March 31, 2013," previously distributed. Comptroller Topinka moved to accept the report. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

Review of Transaction Cost Analysis

Ms. El-Harazin referred the Board Members to “Transaction Cost Analysis (TCA) Summary Report – Equity and Fixed Income Reports” for the period ended March 31, 2013, and reviewed. (Official minutes contain attachment.)

Review of FX Cost Analysis

Ms. Scott stated that the FX Summary Report for the quarter ended March 2013 was previously submitted, and reviewed. (Official minutes contain attachment.)

Proposed FY14 Budget

Director Atwood stated that this was discussed in Executive Session. Mr. Powell moved to approve the proposed budget for FY14. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

Budget Comparison

Ms. White stated that the Budget Comparison for the quarter ended March, 2013 was previously distributed. The Chairman ordered the report filed. (Official minutes contain attachment.)

Financial Statements

Ms. White stated that the Financial Statements for December, 2012 and March, 2013 were previously distributed; there were no material items to report. (Official minutes contain attachment.)

Legislative Update

Director Atwood stated that there was nothing material to report; however, Staff would continue to closely monitor any and all pension reform legislation.

Update on Corporate Governance Matters

Ms. Schoemehl informed Members of the ongoing engagements regarding board declassification via the Harvard Law School Shareholder Rights Project, referred Members to the memorandum “Revised Shareholder Resolution Policy,” dated May 20, 2013, and distributed a revised Shareholder Resolution Policy. Following review, Mr. Powell moved to approved the revised Shareholder Resolution Policy and, in turn, the revised Investment Policy. Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachment.)

REPORT OF ANY BOARD MEMBER

Ms. Bush thanked Chairman Bruce for organizing the meetings and for arranging the previous night’s dinner with the President of the University of Illinois. In addition, Ms. Bush thanked Mr. Kominiarek for organizing the tour of Burnham Property, one of ISBI’s direct real estate investment properties.

UNFINISHED BUSINESS

None.

NEW BUSINESS

None.

NEXT MEETING AND ADJOURNMENT

Chairman Bruce stated that the next meetings of the Board would be held on Friday, September 27, 2013. At 11:30 a.m., there being no further matters to discuss, Mr. Powell moved to adjourn the meeting. Ms. Bush seconded and the meeting was adjourned.

Respectfully submitted,

Devon Bruce, Chairman
Illinois State Board of Investment

Roderick Bashir, Vice Chairman
Illinois State Board of Investment